



Joint Legislative Audit and Review Commission 2000 Fiscal Impact Review

Bill Number: HB692 as Introduced
Review Requested By: Delegate Parrish
Chairman of: House Finance

Concur

JLARC Staff concur with the fiscal impact statement referred for review

Concur with Reservations

With the reservations noted below, JLARC staff concur with the fiscal impact statement referred for review

X Non-Concur

As noted below, JLARC staff do not concur with the fiscal impact statement referred for review.

Bill Summary

Provides that imposition of the local income tax permitted in certain localities after a local referendum is authorized only if the referendum ballot contains a description of the specific transportation projects to be funded by the revenues of any such tax. The transportation projects are to be designated by the Transportation Coordinating Council of Northern Virginia. The bill repeals current law that restricts any such local income tax to a duration of five years.

Fiscal Implications

JLARC staff concludes that HB 692 would have no direct fiscal impact on the Commonwealth. The fiscal impact statement reviewed here estimates administrative costs applicable to current law, not the direct costs attributable to implementing HB 692. Further, the administrative cost estimate of \$4,261,730 is approximately twice that which would be expected for the localities covered by the legislation (the Department of Taxation has agreed that the administrative cost estimates should be reduced).

This bill amends current statute to allow localities that are eligible to enact a local income tax to spend the tax revenue for transportation purposes designated by the Transportation Coordinating Council of Northern Virginia. The bill requires that these specific projects be described on the ballot used in the required referendum that would authorize the local income tax. The current statute (§§ 58.1-540 and 58.1-548) does not require the designation of specific projects, but limits the local income tax revenue to defined transportation purposes. The localities eligible to enact a local income tax under current law are: Arlington County, Fairfax County, Loudoun County, Prince William County, Alexandria, Fairfax City, Falls Church, Manassas, Manassas Park, and Norfolk. This bill also repeals the five year limitation on the collection of local income taxes as currently specified in § 58.1-549.

Despite the fact that none of the eligible localities have enacted a local income tax, the authority to enact a local income tax is already granted under the provisions of §58.1-540. Since those provisions will continue with or without passage of this bill, the administrative costs presented in the fiscal impact statement prepared by the Department of Taxation (the Department) can not be attributed to HB 692, but to the current law. The potential revenue impact on the localities eligible to enact a local income tax is also not attributable to this bill for the same reason.

Even if the provisions of this bill were to influence localities to attempt to enact a local income tax, administrative costs of the Department are fully reimbursable from the local income tax revenue collected, according to § 58.1-548. The Department would have to provide the necessary start-up costs prior to revenue being collected, but these start-up costs, and the annual costs of administering the program would then be reimbursed from the revenues collected. The Department is currently authorized by the

1999 Appropriations Act to tap the Transportation Trust Fund for these start-up costs. The Budget Bill (HB 30) continues this authorization. If the Department did have to pull money from the Transportation Trust Fund, this would result in a loss of investment income from the General Account Composite (of which the Transportation Trust Fund is part). Assuming that the maximum first year start-up cost of \$2,155,465 (discussed below) is pulled from the Transportation Trust Fund, and assuming a rate of return of 5.71 percent (the FY99 yield) this would result in a loss of investment income of approximately \$123,077 for the General Account Composite. Clearly, if the yield changes, this loss would change as well (Treasury estimates the Composite Yield for FY00 at 5.46 percent).

Further, the Department of Taxation's administrative cost estimates appear to be overstated as well. The Department estimates the cost of implementing the local income tax in all of the eligible localities to be as much as \$4,261,730 in the first year, \$1,085,730 in the second year, and \$638,530 annually thereafter. According to the fiscal impact statement prepared by the Department, these costs would decrease if less than all the localities enact the tax. According to the table outlining the incremental administrative costs (based on the number of returns), the figures highlighted by the Department are based upon administering 2.5 million returns. In 1997 (the last year for which data is available) the eligible localities only had 840,677 returns. Using the Department's table, this would indicate administrative costs of \$2,155,465 in the first year, \$871,465 in the second year, and \$424,265 annually thereafter (based on 1 million returns filed).

It should be noted that the Department raises a valid policy issue concerning the authority granted to the Transportation Coordinating Council of Northern Virginia as the designee of the transportation projects to be funded by the local income tax, given that Norfolk is an eligible locality.

Budget Amendment Necessary

No

Agencies Affected

Localities eligible for and able to enact a local income tax.

Date Released, Prepared By: 02/07/2000; Steve Ford

JLARC Staff offer the above Fiscal Impact Review in Accordance with Item 16K of Chapter 935 (1999 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.